

# **Gallatin County School District**

**Financial Statements,  
With Supplementary Information  
Year Ended June 30, 2015  
With Independent Auditors' Report**

# GALLATIN COUNTY SCHOOL DISTRICT

Year Ended June 30, 2015

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**GALLATIN COUNTY SCHOOL DISTRICT**

**Year Ended June 30, 2015**

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## Independent Auditors' Report

To the Members of the Board of Education  
Gallatin County School District  
Warsaw, Kentucky

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gallatin County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Gallatin County School District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gallatin County School District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Independent Auditors' Report (Continued)

### Other Matters

#### ***Change in Accounting Principle***

As described in note 18 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this item.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gallatin County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015 on our consideration of the Gallatin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gallatin County School District's internal control over financial reporting and compliance.



## GALLATIN COUNTY SCHOOL DISTRICT

### Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015

As management of Gallatin County Board of Education (Board), the governing body for the Gallatin County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

#### FINANCIAL HIGHLIGHTS

- The General Fund ending fund balance ended the year at \$2,204,310, an increase of \$267,811. Local tax revenue was \$38,000 below budgeted figures, as real property tax collected was 99% of budget. Revenue exceeded prior year amounts by \$1,109,000, but this increase was primarily due to the \$500,000 transfer from Capital Funds and the insurance payment from casualty loss and an additional \$308,000 of on-behalf amounts related additional state payments. SEEK revenues increased \$403,000 but local tax revenue decreased from \$4,269,266 to \$4,112,476, a decrease of \$156,780. This decrease was in Real property, Delinquent tax collections, and utility taxes. Salary and benefit costs increased 1.05%, from \$8.95M to \$9.05M. Retirement matches increased \$26,000, an increase of 4.7%. One more year of KTRS match increases is due for 2015-16, a 33% increase in local match. Operation of Plant and Maintenance increased \$115,000, but the increase was due to the casualty loss. Maintenance costs would have been \$63,000 lower without the tornado damage. Utility costs went from \$379,000 in 2013-14 to \$329,000 in 2014-15, a 13% reduction. Transportation stayed flat overall. Diesel costs went from \$173,000 to \$111,000, however repair parts and supplies increased \$31,000.
- The Special Revenue Fund accounts for local, state, and federal grants. Grant revenues were \$1.4M in 14-15. With the exception of KERA preschool, these grants are self-sustaining and had carryover amounts to be used in 15-16.
- The Capital Outlay Fund allotment of \$149,466 was transferred to the General Fund for current operating expense.
- The Building Fund consists of \$881,000 in local real property tax revenue and \$798,000 in state equalization. The balance of \$201,000 is escrowed cash to use for the bus garage construction. \$1.26M was used for district debt service, and the remaining funds were transferred to General Fund for current operating expense.
- The ending fund balance in the Construction Fund is \$193,177. This cash balance will be used towards the Bus garage construction. These funds are left over from the Wildcat Academy bond proceeds. The first payment to the architect for the design phase was made from this fund in 14-15.
- Food Service local revenue decreased \$26,000, going from \$210,000 in 13-14, to \$184,000 in 14-15. State and Federal revenues decreased about \$40,000. The General Fund reimbursed the Food Service Fund for uncollectible lunch charges in the amount of \$6,916. Food costs decreased \$14,000(4%), and labor increased \$12,000 (3%). Food Service had an ending unrestricted fund balance of \$45,829 compared to \$131,378 in 13-14

## GALLATIN COUNTY SCHOOL DISTRICT

### Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015 (Continued)

#### FINANCIAL HIGHLIGHTS (Continued)

- Our primary financial concern continues to be state funding which has not kept up with the increases in operating expenses due to inflation, increased salaries - some of which are a direct result of mandates by the state, and an increasing portion of the retirement shortfall that we have been asked to fund. After many years of not making the necessary contributions to fully fund the Kentucky Teachers' Retirement System (KTRS), the legislature passed along a portion of the funding shortfall to employees and a larger portion to school districts. As a result, our district has paid hundreds of thousands of dollars into the retirement system over the past five years and will pay millions of dollars in the future in an effort to help stabilize the fund. For the first time this year we are also being required to record the portion of the unfunded state liability in our financial statements attributable to our employees, as determined by KTRS. While it remains to be seen if districts, including our own, will end up shouldering more this deficit over the years to come, if the state does not start responsibly funding the system it can be safely assumed that we will. This will continue to shift more of the responsibility for funding our education system onto the backs of school districts and subsequently local tax payers. The continual erosion of state funding makes it increasingly difficult to maintain the high standard of education and programming that our students deserve without increasing taxes locally. In this climate of shrinking state support the Gallatin County School District will maintain fiscally responsible policies in order to continue providing quality academic, extra-curricular and community service programs to all of its students.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11-12 of this report.

## GALLATIN COUNTY SCHOOL DISTRICT

### Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015 (Continued)

#### **OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

***Fund financial statements.*** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations and day care operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 through 21 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 42 of this report.

#### **DISTRICT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,444,231 as of June 30, 2015

The largest portion of the District's net position reflects its investment in capital assets (i.e. land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

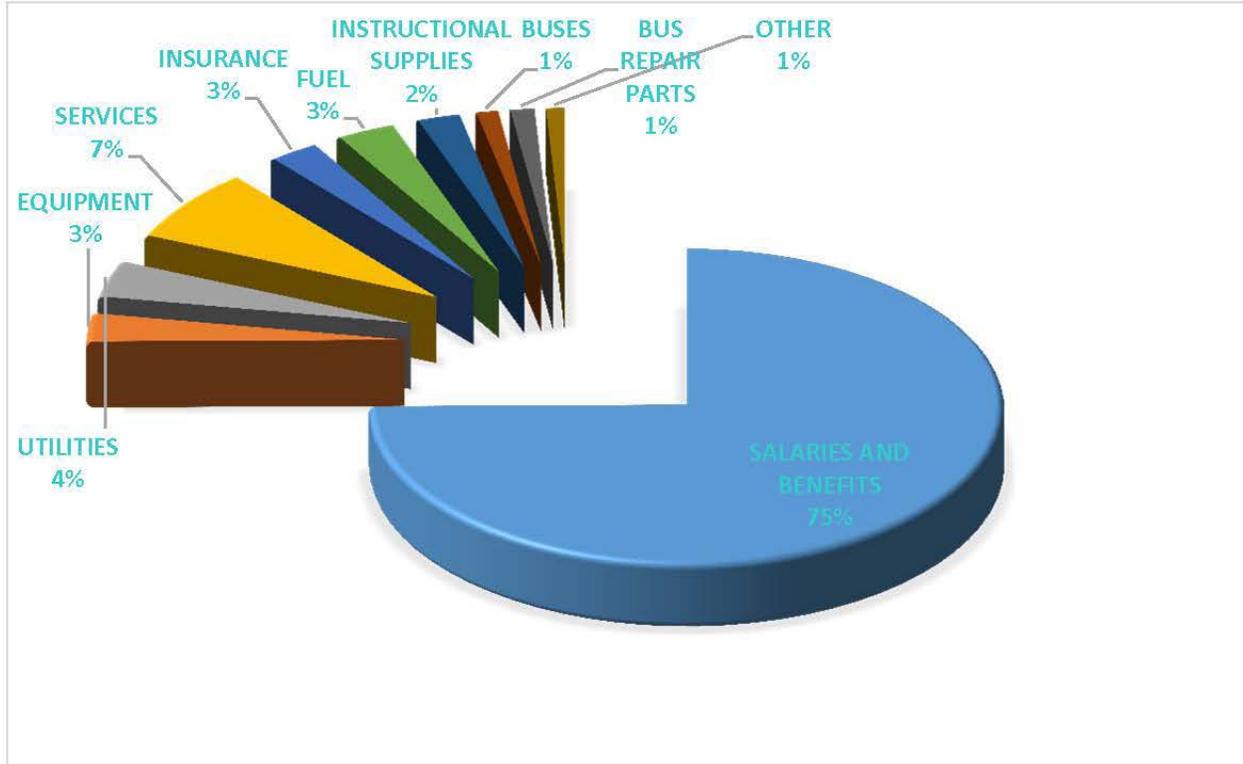
The District's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

GALLATIN COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2015  
(Continued)

DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

GENERAL FUND EXPENDITURES



Salaries, wages, payroll taxes and benefits were 75% of 2014-2015 expenditures. The chart above displays the 2014-15 expenditure categories by category.

**GALLATIN COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2015**  
**(Continued)**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Net Position for the periods ending June 30, 2015 and 2014**

The following is a summary of net position for the fiscal years ended June 30, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Current assets	\$ 3,126,807	\$ 3,134,827
Noncurrent assets	<u>35,656,981</u>	<u>36,925,583</u>
Total assets	<u>38,783,788</u>	<u>40,060,410</u>
Total deferred outflows	<u>1,080,210</u>	<u>-</u>
Current liabilities	2,562,170	2,688,617
Noncurrent liabilities	<u>29,857,597</u>	<u>27,551,358</u>
Total liabilities	<u>32,419,767</u>	<u>30,239,975</u>
Net position		
Investment in capital assets (net of debt)	7,890,177	7,840,856
Restricted	498,596	556,227
Unrestricted	<u>(944,542)</u>	<u>1,423,352</u>
Total net position	<u>\$ 7,444,231</u>	<u>\$ 9,820,435</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Management's Discussion and Analysis (MD&A)  
Year Ended June 30, 2015  
(Continued)**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2015 and 2014.

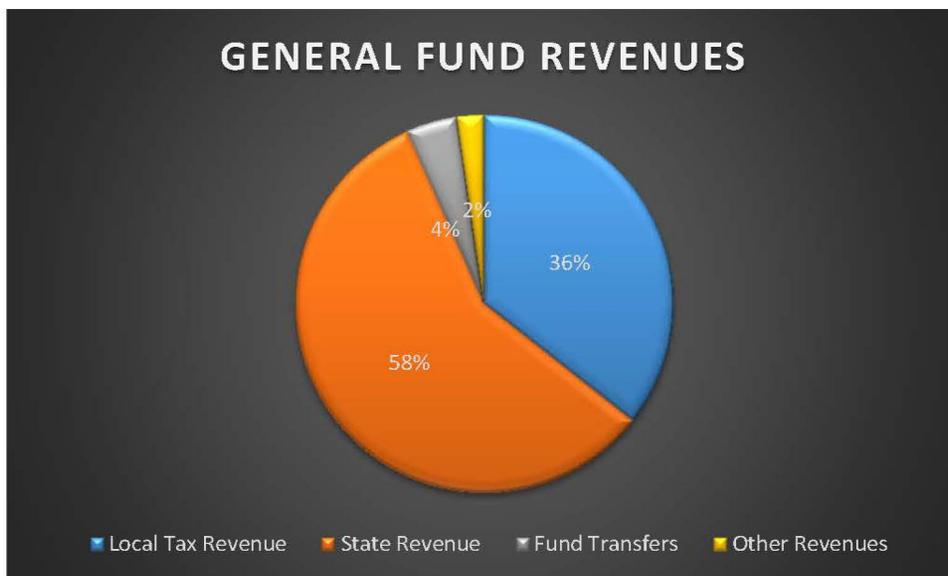
	<u>2015</u>	<u>2014</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 184,299	\$ 210,252
Operating grants	2,177,272	2,335,453
Capital grants	<u>947,709</u>	<u>886,779</u>
Total grant revenues	<u>3,309,280</u>	<u>3,432,484</u>
General Revenues		
Taxes	4,989,059	5,147,320
Grants and entitlements	11,384,330	9,729,566
Earnings on investments	4,218	4,052
Miscellaneous	<u>723,151</u>	<u>(32,575)</u>
Total general revenues	<u>17,100,758</u>	<u>14,848,363</u>
Total revenues	<u>20,410,038</u>	<u>18,280,847</u>
<b>Expenses</b>		
Instructional	10,948,795	9,324,365
Student support services	750,559	686,383
Staff support services	611,216	499,642
District administration	631,207	671,866
School administration	1,033,761	1,090,132
Business support services	967,109	1,010,305
Plant operation and maintenance	1,349,997	1,381,653
Student transportation	1,588,883	1,403,397
Food service operation	1,003,631	1,059,441
Facility acquisition and construction	92,266	127,731
Community service operations	156,061	153,173
Other	-	160,000
Interest on long-term debt	<u>615,756</u>	<u>1,270,099</u>
Total expenses	<u>19,749,241</u>	<u>18,838,187</u>
Excess of revenues over expenses	<u>\$ 660,797</u>	<u>\$ (557,340)</u>

**Comments on General Fund Budget Comparisons**

- The District's total revenues (governmental funds) for the fiscal year ended June 30, 2015, net of Inter-fund transfers, were \$17,944,402.
- General fund budget compared to actual revenue varied slightly from line item to line item. Actual ending balance was \$896,735, net of inter-fund transfers, more than budget.
- The District's total cost of all programs and services (governmental funds) for the fiscal year ended June 30, 2015, net of interfund transfers and debt service payments, were \$17,924,133
- General fund budgeted expenditures were greater than actual by around \$995,458, net of interfund transfers. This resulted from the board establishing a contingency totaling \$981,538 and other expenditures being lower than expected.

**GALLATIN COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2015**  
**(Continued)**

**DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)**



The General Fund relies heavily on state funding, primarily the SEEK program. The SEEK program is the Commonwealth of Kentucky's funding mechanism for public schools. The funds allocated from this program are driven by student average daily attendance and student demographics. Local Tax Revenue is comprised of a real property tax, a tax assessed on utility consumers and a motor vehicle tax on the assessed value of vehicles.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some Federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district ended 2014-2015 with a general fund contingency of \$981,538. The beginning cash balance for the General Fund for the fiscal year was \$2,048,579 and ending cash balance was \$2,101,939. 2014 Awards from State Grants increased approximately \$145,000 from the prior year. Awards from Federal Grants increased approximately \$43,500 from the prior year.

Gallatin County Public Schools received a federal grant titled Title I Assistance, which was awarded for the period July 1 2014 through September 30, 2016. This grant was awarded in the amount of \$419,584. Its impact involved the elementary and upper elementary schools and their associated staff. This grant also helped fund Central Office Staff including a Federal Programs coordinator.

Gallatin County Public Schools received a federal grant titled IDEA Basic Assistance, which was awarded for the period July 1, 2014 through September 30, 2016. This grant was awarded in the amount of \$307,834. Its impact involved funding for special educational services for all of the district's schools and their associated staff. This grant also helped fund the Director of Special Education and the School Psychologist.

## **GALLATIN COUNTY SCHOOL DISTRICT**

### **Management's Discussion and Analysis (MD&A) Year Ended June 30, 2015 (Continued)**

#### **GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)**

Gallatin County Public Schools received a federal grant titled IDEA Preschool Assistance, which was awarded for the period July 1, 2014 through September 30, 2016. This grant was awarded in the amount of \$11,645. This grant helped fund special education programs and services for preschool children.

Gallatin County Public Schools received a federal grant titled Carl D. Perkins Vocational and Applied Educational Grant, which was awarded for the period July 1, 2014 through June 30, 2015. This grant was awarded in the amount of \$16,293. This grant helped fund career and technical programs at the high school.

Gallatin County Public Schools received a federal grant titled Title II-A Teacher Quality Assistance, which was awarded for the period July 1, 2014 through September 30, 2015. This grant was awarded in the amount of \$73,842. This grant helped fund programs at the elementary school.

Gallatin County Public Schools received a federal grant titled Rural & Low Income Assistance, which was awarded for the period July 1, 2013 through September 30, 2015. This grant was awarded in the amount of \$34,229. This grant provided funds for all schools to supplement funding for teacher recruitment/retention, education technology, safe and drug-free schools and parent activities.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to reflect the District's accountability for the funds it receives. Questions regarding this report should be directed to Superintendent Travis Huber (859) 567-2828 or to Kelley Gamble, Finance Officer (859) 567-1825, or by mail at 75 Boardwalk, Warsaw, KY 41095.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Net Position – District Wide  
Year Ended June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
<b>Current:</b>			
Cash and cash equivalents	\$ 2,602,297	\$ 131,930	\$ 2,734,227
Accounts receivable	372,378	-	372,378
Investments	1,400	-	1,400
Inventories for consumption	-	18,802	18,802
	<u>2,976,075</u>	<u>150,732</u>	<u>3,126,807</u>
<b>Noncurrent:</b>			
Nondepreciated capital assets:			
Land	1,439,392	-	1,439,392
Depreciated capital assets:			
Land improvements	2,306,070	-	2,306,070
Buildings and improvements	39,661,696	-	39,661,696
Furniture and equipment	5,948,655	937,286	6,885,941
Less: accumulated depreciation	<u>(13,995,229)</u>	<u>(640,889)</u>	<u>(14,636,118)</u>
Total noncurrent	<u>35,360,584</u>	<u>296,397</u>	<u>35,656,981</u>
Total assets	<u>38,336,659</u>	<u>447,129</u>	<u>38,783,788</u>
<b>Deferred Outflows</b>	<u>1,066,328</u>	<u>13,882</u>	<u>1,080,210</u>
<b>Liabilities and Net Position</b>			
<b>Liabilities</b>			
<b>Current:</b>			
Current portion of bonds payable	1,908,015	-	1,908,015
Current portion of capital lease payable	12,400	-	12,400
Accounts payable	131,051	1,696	132,747
Accrued interest	127,640	-	127,640
Accrued sick leave	29,912	-	29,912
Accrued payroll and related expenses	8,722	-	8,722
Assessed KISBIT liability	158,785	-	158,785
Deferred revenues	179,225	4,724	183,949
	<u>2,555,750</u>	<u>6,420</u>	<u>2,562,170</u>
<b>Noncurrent:</b>			
Accrued sick leave	269,208	-	269,208
CERS net pension liability	2,924,635	112,365	3,037,000
Bond obligations	26,551,389	-	26,551,389
	<u>29,745,232</u>	<u>112,365</u>	<u>29,857,597</u>
Total liabilities	<u>32,300,982</u>	<u>118,785</u>	<u>32,419,767</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	7,593,780	296,397	7,890,177
Restricted	452,768	45,828	498,596
Unrestricted	<u>(944,542)</u>	<u>-</u>	<u>(944,542)</u>
Total net position	<u>\$ 7,102,006</u>	<u>\$ 342,226</u>	<u>\$ 7,444,231</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Activities – District Wide  
Year Ended June 30, 2015**

Function/Programs	Program Revenues				Net (Expense) Revenues and Changes In Net Position		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Governmental Activities:</b>							
Instructional	\$ 10,948,795	\$ -	\$ 1,088,410	\$ -	\$ (9,860,385)	\$ -	\$ (9,860,385)
Student support services	750,559	-	4,127	-	(746,432)	-	(746,432)
Staff support services	611,216	-	36,101	-	(575,115)	-	(575,115)
District administration	631,207	-	-	-	(631,207)	-	(631,207)
School administration	1,033,761	-	1,849	-	(1,031,912)	-	(1,031,912)
Business support services	967,109	-	32,068	-	(935,041)	-	(935,041)
Plant operation and maintenance	1,349,997	-	-	-	(1,349,997)	-	(1,349,997)
Student transportation	1,588,883	-	80,459	-	(1,508,424)	-	(1,508,424)
Community service operations	156,061	-	155,777	-	(284)	-	(284)
Facility acquisition and construction	92,266	-	-	-	(92,266)	-	(92,266)
Other	-	-	-	947,709	947,709	-	947,709
Interest on long-term debt	615,756	-	-	-	(615,756)	-	(615,756)
<b>Total governmental activities</b>	<b>18,745,610</b>	<b>-</b>	<b>1,398,791</b>	<b>947,709</b>	<b>(16,399,110)</b>	<b>-</b>	<b>(16,399,110)</b>
<b>Business-type Activities</b>							
Food service	1,003,631	184,299	778,481	-	-	(40,851)	(40,851)
<b>Total business-type activities</b>	<b>1,003,631</b>	<b>184,299</b>	<b>778,481</b>	<b>-</b>	<b>-</b>	<b>(40,851)</b>	<b>(40,851)</b>
<b>Total school district</b>	<b>\$ 19,749,241</b>	<b>\$ 184,299</b>	<b>\$ 2,177,272</b>	<b>\$ 947,709</b>	<b>(16,399,110)</b>	<b>(40,851)</b>	<b>(16,439,961)</b>
			<b>General revenues:</b>				
			Taxes		\$ 4,989,059	\$ -	\$ 4,989,059
			State and federal sources		11,384,330	-	11,384,330
			Investment earnings		4,098	120	4,218
			Gain on sale of fixed assets		-	-	-
			Fund transfers		(6,916)	6,916	-
			Other sources		723,151	-	723,151
			<b>Total general and special revenues</b>		<b>17,093,722</b>	<b>7,036</b>	<b>17,100,758</b>
			Change in net position		694,612	(33,815)	660,797
			Net position - beginning		9,332,029	488,406	9,820,435
			Net position adjustment (Note 18)		(2,924,635)	(112,365)	(3,037,000)
			Net position - ending		<b>\$ 7,102,006</b>	<b>\$ 342,226</b>	<b>\$ 7,444,232</b>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Balance Sheet – Governmental Funds  
Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
<b>Current</b>					
Cash (overdraft) and cash equivalents	\$ 2,101,939	\$ 47,590	\$ -	\$ 452,768	\$ 2,602,297
Investments	1,400	-	-	-	1,400
Accounts receivable	233,657	138,721	-	-	372,378
Prepaid expenses	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current	<u>\$ 2,336,996</u>	<u>\$ 186,311</u>	<u>\$ -</u>	<u>\$ 452,768</u>	<u>\$ 2,976,075</u>
<b>Liabilities and Fund Balance</b>					
<b>Current</b>					
Accounts payable	\$ 123,964	\$ 7,087	\$ -	\$ -	\$ 131,051
Accrued payroll and related expenses	8,722	-	-	-	8,722
Unearned revenues	-	179,224	-	-	179,224
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current	<u>132,686</u>	<u>186,311</u>	<u>-</u>	<u>-</u>	<u>318,997</u>
<b>Fund Balance</b>					
Restricted:					
Capital projects	-	-	-	394,654	394,654
Other	-	-	-	58,114	58,114
Committed:					
Other	149,560	-	-	-	149,560
Unassigned	2,054,750	-	-	-	2,054,750
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balance	<u>2,204,310</u>	<u>-</u>	<u>-</u>	<u>452,768</u>	<u>2,657,078</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	<u>\$ 2,336,996</u>	<u>\$ 186,311</u>	<u>\$ -</u>	<u>\$ 452,768</u>	<u>\$ 2,976,075</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Reconciliation of the Balance Sheet  
Governmental Funds to the Statement of Net Position  
As of June 30, 2015**

Total governmental fund balance		\$ 2,657,078
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	\$ 49,355,813	
Accumulated depreciation	<u>(13,995,229)</u>	35,360,584
Deferred outflows		
Bond refinancing	705,000	
CERS contributions made after the measurement date	<u>361,328</u>	1,066,328
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable		(28,459,404)
Capital lease payable		(12,400)
Accrued interest on bonds		(127,640)
Net pension liability		(2,924,635)
Assessed KISBIT liability		(158,785)
Accrued sick leave		<u>(299,120)</u>
Total net position - governmental		<u>\$ 7,102,006</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 4,108,047	\$ -	\$ -	\$ 881,012	\$ 4,989,059
Earnings on investments	3,829	-	-	269	4,098
State sources	9,374,953	488,276	870,265	947,709	11,681,203
Federal sources	-	879,082	-	-	879,082
Other sources	264,428	31,433	-	95,099	390,960
Total revenues	<u>13,751,257</u>	<u>1,398,791</u>	<u>870,265</u>	<u>1,924,089</u>	<u>17,944,402</u>
<b>Expenditures</b>					
Instructional	7,290,662	1,123,829	-	68,411	8,482,902
Student support services	744,231	4,127	-	2,062	750,420
Staff support services	556,040	36,101	-	18,140	610,281
District administration	626,464	-	-	-	626,464
School administration	1,031,337	1,849	-	-	1,033,186
Business support services	852,697	32,068	-	-	884,765
Plant operation and maintenance	1,537,999	-	-	-	1,537,999
Student transportation	1,402,610	80,459	-	1,173	1,484,242
Community service operations	-	155,777	-	-	155,777
Facility acquisition and construction	-	-	-	92,265	92,265
Debt service:					
Principal	110,296	-	1,445,603	-	1,555,899
Interest	17,153	-	692,960	-	710,113
Total expenditures	<u>14,169,489</u>	<u>1,434,210</u>	<u>2,138,563</u>	<u>182,051</u>	<u>17,924,313</u>
Excess (deficit) of revenues over expenditures	<u>(418,232)</u>	<u>(35,419)</u>	<u>(1,268,298)</u>	<u>1,742,038</u>	<u>20,089</u>
<b>Other financing sources (uses)</b>					
Loan and bond proceeds	225,756	-	-	-	225,756
Proceeds from sale of assets	-	-	-	-	-
Loss on bond refunding	-	-	-	-	-
Operating transfers in	502,622	35,419	1,268,298	2,296	1,808,635
Operating transfers out	(42,335)	-	-	(1,770,920)	(1,813,255)
Total other financing sources (uses)	<u>686,043</u>	<u>35,419</u>	<u>1,268,298</u>	<u>(1,768,624)</u>	<u>221,136</u>
Net change in fund balance	267,811	-	-	(26,586)	241,225
Fund balance, July 1, 2014	<u>1,936,499</u>	<u>-</u>	<u>-</u>	<u>479,354</u>	<u>2,415,853</u>
Fund balance, June 30, 2015	<u>\$ 2,204,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 452,768</u>	<u>\$ 2,657,078</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balance of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2015**

Amounts reported for governmental activities in the statement of net position are different because:

Net changes-governmental funds		\$ 241,225
Proceeds from bonds payable		(13,295,756)
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.		
Depreciation expense	\$ (1,430,281)	
Capital outlays	<u>222,310</u>	
		(1,207,971)
Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Bond principal paid		13,921,079
Capital lease principal paid		11,600
Deferred outflow from bond refinancing		705,000
Deferred outflow CERS contributions made after the measurement date		361,328
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
		<u>(41,893)</u>
Changes in net position of governmental activities		<u>\$ 694,612</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Net Position – Proprietary Fund  
As of June 30, 2015**

	<u>Food Service</u>	<u>Total</u>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 131,930	\$ 131,930
Inventories for consumption	18,802	18,802
	<hr/>	<hr/>
Total current	150,732	150,732
	<hr/>	<hr/>
<b>Noncurrent</b>		
Furniture and fixtures	937,286	937,286
Less: accumulated depreciation	(640,889)	(640,889)
	<hr/>	<hr/>
Total noncurrent	296,397	296,397
	<hr/>	<hr/>
Total assets	447,129	447,129
	<hr/>	<hr/>
<b>Deferred Outflows</b>	13,882	13,882
	<hr/>	<hr/>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable	1,696	1,696
CERS net pension liability	112,365	112,365
Unearned revenue	4,724	4,724
	<hr/>	<hr/>
Total current	118,785	118,785
	<hr/>	<hr/>
<b>Net Position</b>		
Invested in assets, net of debt	296,397	296,397
Restricted	45,828	45,828
	<hr/>	<hr/>
Total net position	\$ 342,226	\$ 342,226
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Revenues, Expenses and Changes in Net Position –  
Proprietary Fund  
Year Ended June 30, 2015**

	<u>Food Service</u>	<u>Total</u>
<b>Operating revenues</b>		
Lunchroom sales	\$ 184,208	\$ 184,208
Other operating revenues	91	91,000
	<u>184,299</u>	<u>184,299</u>
<b>Operating expenses</b>		
Salaries and benefits	410,290	410,290
Contract services	34,263	34,263
Materials and supplies	495,461	495,461
Depreciation	60,631	60,631
Other operating expenses	2,986	2,986
	<u>1,003,631</u>	<u>1,003,631</u>
Operating loss	<u>(819,332)</u>	<u>(819,332)</u>
<b>Nonoperating revenues</b>		
Federal grants	709,533	709,533
State grants	9,717	9,717
Donated commodities and other donations	59,231	59,231
Transfers	6,916	6,916
Interest income	120	120
	<u>785,517</u>	<u>785,517</u>
Net income	(33,815)	(33,815)
Total net position, July 1, 2014	<u>488,406</u>	<u>488,406</u>
Net position adjustment	<u>(112,365)</u>	<u>(112,365)</u>
Total net position, June 30, 2015	<u>\$ 342,226</u>	<u>\$ 342,226</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Cash Flows – Proprietary Fund  
Year Ended June 30, 2015**

	<b>Food Service Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>		
Cash received from lunchroom sales	\$ 184,208	\$ 184,208
Cash received from other activities	91	91
Cash payments to employees for services	(424,172)	(424,172)
Cash payments to suppliers for goods and services	(523,783)	(523,783)
Net cash used in operating activities	(763,656)	(763,656)
<b>Cash flows from noncapital financing activities</b>		
Non-operating revenues received	785,397	785,397
Net cash provided by noncapital financing activities	785,397	785,397
<b>Cash flows from investing activities</b>		
Interest on investments	120	120
Net cash flows provided by investing activities	120	120
Net increase in cash and cash equivalents	21,861	21,861
Cash and cash equivalents - beginning	110,069	110,069
Cash and cash equivalents - ending	\$ 131,930	\$ 131,930
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (819,332)	\$ (819,332)
<b>Adjustments to reconcile operating loss to net cash used in operating activities</b>		
Depreciation	60,631	60,631
Changes in assets and liabilities:		
(Increase) in deferred outflows	(13,882)	
Increase in accounts payable	323	323
Increase in unearned revenue	3,740	3,740
Decrease in inventories	4,864	4,864
Net cash used in operating activities	\$ (763,656)	\$ (749,774)
<b>Schedule of non-cash transactions:</b>		
Donated commodities received from federal government	\$ 59,231	\$ 59,231

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Fiduciary Net Position  
Year Ended June 30, 2015**

	<u>Fiduciary Fund</u>	<u>School Activity Funds</u>	<u>Total</u>
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 90,000	\$ 84,370	\$ 174,370
Accounts receivable	-	-	-
	<u>90,000</u>	<u>84,370</u>	<u>174,370</u>
Total current assets			
	<u>90,000</u>	<u>84,370</u>	<u>174,370</u>
Total assets	<u>90,000</u>	<u>84,370</u>	<u>174,370</u>
<b>Liabilities</b>			
<b>Current</b>			
Due to student groups	-	84,370	84,370
	<u>-</u>	<u>84,370</u>	<u>84,370</u>
Total current	<u>-</u>	<u>84,370</u>	<u>84,370</u>
<b>Net Assets</b>			
Restricted	90,000	-	90,000
	<u>90,000</u>	<u>-</u>	<u>90,000</u>
Total net position	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>

The accompanying notes are an integral part of these financial statements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Revenues, Expenses and Changes in Net Position – Fiduciary Funds  
Year Ended June 30, 2015**

	<u>Fiduciary Fund</u>	<u>Total</u>
<b>Additions</b>		
Net interest and investment gains	\$ -	\$ -
Private donations	-	-
Other additions	-	-
	<hr/>	<hr/>
Total additions	-	-
	<hr/>	<hr/>
<b>Deductions</b>		
Instructional	70,000	70,000
	<hr/>	<hr/>
Total deductions	70,000	70,000
	<hr/>	<hr/>
<b>Other financing sources</b>		
Operating transfers in	-	-
	<hr/>	<hr/>
Total other financing sources	-	-
	<hr/>	<hr/>
Change in net position	(70,000)	(70,000)
Net position, June 30, 2014	160,000	160,000
	<hr/>	<hr/>
Net position, June 30, 2015	90,000	90,000
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

# GALLATIN COUNTY SCHOOL DISTRICT

## Notes to the Financial Statement

### NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***Reporting Entity***

The Gallatin County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Gallatin County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Gallatin County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Gallatin County School District Finance Corporation - The Board authorized the establishment of the Gallatin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Gallatin County Board of Education also comprise the Corporation's Board of Directors.

#### ***Basis of Presentation***

District-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Basis of Presentation (Continued)***

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 56. This is a major fund of the District.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Basis of Presentation (Continued)***

I. Governmental Fund Types (cont'd)

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
- 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
- 2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
- 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Basis of Accounting***

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

***Taxes***

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Budgetary Process***

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

***Cash and Cash Equivalents***

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

***Inventories***

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars, with the exception of computers, digital cameras and real property, for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Capital Assets (Continued)***

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

***Accumulated Unpaid Sick Leave Benefits***

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Fund Balance Reserves***

Beginning with fiscal year 2012 the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

***Net Position***

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 2 ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3 CASH AND CASH EQUIVALENTS**

The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The amounts exceeding the federally insured limits are covered by a collateral agreement and the collateral is held by the pledging banks' trust departments in the District's name. The District has not experienced any losses in such accounts and the District believes it is not exposed to any significant credit risk on cash and cash equivalents.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2014	Additions	Deductions	Balance June 30, 2015
Land	\$ 1,439,392	\$ -	\$ -	\$ 1,439,392
Land improvements	2,306,070	-	-	2,306,070
Buildings and improvements	39,661,696	-	-	39,661,696
Technology equipment	1,761,894	-	-	1,761,894
Vehicles	2,204,459	217,279	-	2,421,738
General equipment	1,759,992	5,031	-	1,765,023
Construction work in progress	-	-	-	-
<b>Totals at historical cost</b>	<b>49,133,503</b>	<b>222,310</b>	<b>-</b>	<b>49,355,813</b>
Less: accumulated depreciation				
Land improvements	939,072	107,738	-	1,046,810
Buildings and improvements	7,631,254	949,869	-	8,581,123
Technology equipment	1,385,024	147,877	-	1,532,901
Vehicles	1,583,023	118,733	-	1,701,756
General equipment	1,026,575	106,064	-	1,132,639
<b>Total accumulated depreciation</b>	<b>12,564,948</b>	<b>1,430,281</b>	<b>-</b>	<b>13,995,229</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 36,568,555</b>	<b>\$ (1,207,971)</b>	<b>\$ -</b>	<b>\$ 35,360,584</b>
 <u>Business - Type Activities</u>				
General equipment	\$ 890,662	\$ -	\$ -	\$ 890,662
Technology equipment	46,624	-	-	46,624
<b>Totals at historical cost</b>	<b>937,286</b>	<b>-</b>	<b>-</b>	<b>937,286</b>
Less: accumulated depreciation				
General equipment	535,027	59,177	-	594,204
Technology equipment	45,231	1,454	-	46,685
<b>Total accumulated depreciation</b>	<b>580,258</b>	<b>60,631</b>	<b>-</b>	<b>640,889</b>
<b>Business - type activities capital assets - net</b>	<b>\$ 357,028</b>	<b>\$ (60,631)</b>	<b>\$ -</b>	<b>\$ 296,397</b>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 4 CAPITAL ASSETS (Continued)**

Depreciation expense by function for the fiscal year ended June 30, 2015 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instructional	\$ 1,211,141	\$ -
Student support services	139	-
Staff support services	935	-
District administration	4,743	-
School administration	575	-
Business support services	82,344	60,631
Plant operation and maintenance	13,879	-
Student transportation	116,241	-
Community service operations	284	-
Food service	-	-
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 1,430,281</u>	<u>\$ 60,631</u>

**NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS**

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2015 this amount totaled approximately \$299,120 for those employees with twenty-seven or more years of experience.

**NOTE 6 COMMITMENTS UNDER CAPITAL LEASES**

The District is the lessee of buses under capital leases expiring in 2016. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Future minimum lease payments under capital leases as of June 30, 2015, for each of the next five years and in the aggregate are as follows:

	Year Ending <u>June 30,</u>	
	2015-2016	<u>\$ 13,254</u>
Total minimum payments		13,254
Less amount representing interest		<u>854</u>
Present value of net minimum lease payments		<u>\$ 12,400</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 7 LEASE OBLIGATIONS AND BONDED DEBT**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
July 1, 2003	\$ 2,730,000	3.600% - 3.625%
March 1, 2005	68,131	3.500%
May 1, 2006	16,660,000	4.000% - 4.500%
January 1, 2006	145,508	3.300% - 4.000%
September 1, 2006	78,027	3.500% - 5.875%
September 30, 2008	175,000	2.500% - 3.800%
April 8, 2008	1,240,000	2.450% - 3.300%
January 1, 2008	166,094	3.000% - 3.750%
January 1, 2009	86,034	2.000% - 3.900%
May 4, 2010	7,150,000	1.000% - 5.900%
September 16, 2010	3,010,000	0.400% - 2.400%
July 1, 2010	109,182	1.000% - 3.390%
January 1, 2011	106,899	1.000% - 4.000%
December 19, 2012	4,040,000	1.400% - 2.625%
May 1, 2012	110,010	2.000%
November 27, 2013	385,000	2.300%
March 7, 2013	106,762	2.000%
March 1, 2014	117,534	2.000% - 3.000%
April 30, 2014	6,495,000	1.100% - 3.150%
March 1, 2015	225,576	1.000% - 2.625%
March 30, 2015	13,070,000	2.000% - 3.000%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Gallatin County Fiscal Court and the Gallatin County School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note 16 sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

All issues may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service (principal and interest) are reported in Note 16.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 8 CONTINGENCIES**

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

**NOTE 9 INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

**NOTE 10 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11 DEFICIT OPERATING/FUND BALANCES**

The District currently no funds with a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

Construction Fund	\$	92,249
Fiduciary Fund		70,000
Food Service Fund		33,815
Gallatin County Lower Elementary		1,247
Gallatin County Upper Elementary		21

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 12 COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

**NOTE 13 CONTINGENT LIABILITY**

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2015, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$158,785. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

**NOTE 14 TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Operating	35,419
General Fund	Food Service Fund	Indirect Cost	6,916
Building Fund	Debt Service Fund	Debt Service	1,268,298
Capital Outlay Fund	General Fund	Operating	149,466
Building Fund	General Fund	Operating	353,156

**NOTE 15 ON-BEHALF PAYMENTS**

For the year ended June 30, 2015 total payments of \$3,607,778 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 2,737,512
Debt Service	<u>870,266</u>
Total On-Behalf	<u>\$ 3,607,778</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 16 SCHEDULE OF LONG-TERM OBLIGATIONS**

2003, 2006, 2008, 2008R, 2010R, 2012, 2013, 2014, 2015 and KISTA Bus Loans

Fiscal Year	Gallatin County School District			KY School Facilities Construction Commission			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2015-2016	\$ 1,225,094	\$ 536,972	\$ 1,762,066	\$ 682,921	\$ 186,498	\$ 869,419	\$ 2,631,485
2016-2017	1,236,527	509,304	1,745,831	694,898	171,384	866,282	2,612,113
2017-2018	1,256,363	481,660	1,738,023	704,593	155,923	860,516	2,598,539
2018-2019	1,266,311	452,144	1,718,455	688,749	140,457	829,206	2,547,661
2019-2020	1,294,889	423,209	1,718,098	671,862	125,542	797,404	2,515,503
2020-2021	1,311,846	391,833	1,703,679	598,991	112,205	711,196	2,414,875
2021-2022	1,994,963	358,219	2,353,182	610,148	100,243	710,391	3,063,573
2022-2023	1,362,038	327,657	1,689,695	626,919	82,666	709,585	2,399,280
2023-2024	1,383,111	289,144	1,672,255	648,259	64,532	712,791	2,385,045
2024-2025	1,413,758	249,122	1,662,880	627,164	45,720	672,884	2,335,764
2025-2026	1,199,316	207,493	1,406,809	645,684	27,199	672,883	2,079,693
2026-2027	879,670	170,863	1,050,533	55,330	8,130	63,460	1,113,993
2027-2028	908,179	145,217	1,053,396	56,821	6,638	63,459	1,116,855
2028-2029	931,584	118,523	1,050,107	58,416	5,044	63,460	1,113,568
2029-2030	959,895	89,798	1,049,693	60,105	3,355	63,460	1,113,153
2030-2031	749,394	50,859	800,253	25,606	1,616	27,222	827,475
2031-2032	778,728	31,271	809,999	26,272	951	27,223	837,222
2032-2033	801,910	10,525	812,435	23,090	303	23,393	835,828
	<u>\$ 20,953,576</u>	<u>\$ 4,843,815</u>	<u>\$ 25,797,391</u>	<u>\$ 7,505,828</u>	<u>\$ 1,238,405</u>	<u>\$ 8,744,233</u>	<u>\$ 34,541,623</u>

A summary of the changes in the principal of the outstanding bond obligations and the capital leases for the District during the year ended June 30, 2015 is as follows:

Governmental Activities	Balance	Additions	Payments	Balance
	July 1, 2014			June 30, 2015
Bond Obligations	\$ 29,084,727	\$ 13,295,756	\$ 13,921,079	\$ 28,459,404
Capital Leases	\$ 24,000	\$ -	\$ 11,600	\$ 12,400

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS**

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

**General information about the County Employees Retirement System Non-Hazardous**

***Plan description***

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

***Benefits provided***

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS (CONTINUED)**

***Contributions***

Required contributions by the employee are based on the following tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

The contribution requirement for CERS for the year ended June 30, 2015, was \$486,594, which consisted of \$375,210 from the District and \$111,384 from the employees. Total contributions for the year ended June 30, 2014 and 2013 were \$517,760 and \$519,855, respectively. The contributions have been contributed in full for fiscal years 2015, 2014 and 2013.

**General information about the Teachers' Retirement System of the State of Kentucky**

***Plan description***

Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

***Benefits provided***

For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS (CONTINUED)**

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions—Contribution rates are established by Kentucky Revised Statutes. Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS. The contribution requirement for KTRS for the year ended June 30, 2015, was \$1,054,310, which consisted of \$217,421 from the District and \$836,889 from the employees. Total contributions for the year ended June 30, 2014 and 2013 were \$937,202 and \$941,830, respectively. The contributions have been contributed in full for fiscal years 2015, 2014 and 2013.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**Medical Insurance Plan**

***Plan description***

In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

***Funding policy***

In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS (CONTINUED)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 3,037,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>44,782,229</u>
	<u>\$ 47,819,229</u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.093618%.

For the year ended June 30, 2015, the District recognized pension expense of \$405,710 related to CERS and \$2,194,420 related to KTRS. The District also recognized revenue of \$2,194,420 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 339,000
District contributions subsequent to the measurement date	<u>375,210</u>	<u>-</u>
Total	<u>\$ 375,210</u>	<u>\$ 339,000</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS (CONTINUED)**

\$375,210 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 67,800
2017	67,800
2018	67,800
2019	67,800
2020	67,800

***Actuarial assumptions***

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.75%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS (CONTINUED)**

For KTRS and CERS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's and CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>KTRS Long-Term Expected Real Rate of Return</u>	<u>CERS Target Allocation</u>	<u>CERS Long-Term Expected Real Rate of Return</u>
US equity	45%	6.40%	30%	8.45%
Non-US equity	17%	6.50%	22%	8.85%
Emerging market equity	-	-	5%	10.50%
Private equity	-	-	7%	1.25%
Core US fixed income	-	-	10%	5.25%
High yield US fixed income	-	-	5%	7.25%
Non-US fixed incomes	-	-	5%	5.50%
Commodities	-	-	5%	7.75%
TIPS	-	-	5%	5.00%
Fixed income	24%	1.60%	-	-
High yield bonds	4%	3.10%	-	-
Real estate	4%	5.80%	5%	7.00%
Alternatives	4%	6.80%	-	-
Cash	2%	1.50%	1%	3.25%
Total	<u>100%</u>		<u>100%</u>	

***Discount rate***

For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Financial Statement  
(Continued)**

**NOTE 17 RETIREMENT PLANS (CONTINUED)**

***Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate***

The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	446,101	339,000	244,373
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

***Pension plan fiduciary net position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

**NOTE 18 CHANGE IN ACCOUNTING PRINCIPLE**

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, "Accounting and Financial Reporting for Pensions" (GASB 68). GASB 68 replaced the requirements of GASB 27, "Accounting for Pensions by State and Local Governmental Employers" and GASB 50, "Pension Disclosures", as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$3,037,000 reduction in beginning net position on the Statement of Activities and an increase of \$375,210 of deferred outflows of resources – District contributions subsequent to the measurement date.

**NOTE 19 SUBSEQUENT EVENTS**

Subsequent events were considered through November 13, 2015, which represents the release date of our report.

SUPPLEMENTARY  
INFORMATION

**GALLATIN COUNTY SCHOOL DISTRICT**

**Combining Balance Sheet – Nonmajor Governmental Funds  
June 30, 2015**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>District Activity Fund</u>	<u>Total Non-Major Government Funds</u>
<b>Assets</b>					
<b>Current:</b>					
Cash and cash equivalents	\$ -	\$ 201,477	\$ 193,177	\$ 58,114	\$ 452,768
Accounts receivable	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total current	<u>\$ -</u>	<u>\$ 201,477</u>	<u>\$ 193,177</u>	<u>\$ 58,114</u>	<u>\$ 452,768</u>
<b>Liabilities and Fund Balances</b>					
<b>Fund Balances:</b>					
Restricted:					
Capital projects	\$ -	\$ 201,477	\$ 193,177	\$ -	\$ 394,654
Other	-	-	-	58,114	58,114
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>-</u>	<u>201,477</u>	<u>193,177</u>	<u>58,114</u>	<u>452,768</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 201,477</u>	<u>\$ 193,177</u>	<u>\$ 58,114</u>	<u>\$ 452,768</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Combining Statement of Revenues, Expenditures and Changes  
In Fund Balances – Nonmajor Governmental Funds  
As of June 30, 2015**

	<b>Capital Outlay Fund</b>	<b>Building Fund</b>	<b>Construction Fund</b>	<b>District Activity Fund</b>	<b>Total Non-Major Government Funds</b>
<b>Revenues:</b>					
Taxes	\$ -	\$ 881,012	\$ -	\$ -	\$ 881,012
Earnings on investments	-	253	16	-	269
State sources	149,466	798,243	-	-	947,709
Federal sources	-	-	-	-	-
Other sources	-	4,000	-	91,099	95,099
<b>Total revenues</b>	<b>149,466</b>	<b>1,683,508</b>	<b>16</b>	<b>91,099</b>	<b>1,924,089</b>
<b>Expenditures:</b>					
Instructional	-	-	-	68,411	68,411
Student support services	-	-	-	2,062	2,062
Staff support services	-	-	-	18,140	18,140
Student transportation	-	-	-	1,173	1,173
Facility acquisition and construction	-	-	92,265	-	92,265
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>92,265</b>	<b>89,786</b>	<b>182,051</b>
Excess (deficit) of revenues over expenditures	149,466	1,683,508	(92,249)	1,313	1,742,038
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	-	-	-	2,296	2,296
Operating transfers out	(149,466)	(1,621,454)	-	-	(1,770,920)
<b>Total other financing sources(uses)</b>	<b>(149,466)</b>	<b>(1,621,454)</b>	<b>-</b>	<b>2,296</b>	<b>(1,768,624)</b>
Net change in fund balance	-	62,054	(92,249)	3,609	(26,586)
Fund balance, June 30, 2014	-	139,423	285,426	54,505	479,354
Fund balance, June 30, 2015	\$ -	\$ 201,477	\$ 193,177	\$ 58,114	\$ 452,768

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget to Actual – General Fund  
Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>Revenues</b>				
Taxes	\$ 4,158,799	\$ 4,158,799	\$ 4,108,047	\$ (50,752)
Earnings on investments	3,500	3,500	3,829	329
State sources	8,900,973	8,900,973	9,374,953	473,980
Other sources	185,291	185,291	992,806	807,515
	<u>13,248,563</u>	<u>13,248,563</u>	<u>14,479,635</u>	<u>1,231,072</u>
<b>Expenditures</b>				
Instructional	7,322,493	7,322,493	7,290,662	31,831
Student support services	723,539	723,539	744,231	(20,692)
Staff support services	534,964	534,964	556,040	(21,076)
District administration	790,150	782,670	626,464	156,206
School administration	1,009,845	1,009,845	1,031,337	(21,492)
Business support services	941,806	949,286	852,697	96,589
Plant operation and maintenance	1,460,890	1,460,890	1,537,999	(77,109)
Student transportation	1,177,744	1,177,744	1,402,610	(224,866)
Debt Service	221,798	221,798	127,449	94,349
Other	981,538	981,538	42,335	939,203
	<u>15,164,767</u>	<u>15,164,767</u>	<u>14,211,824</u>	<u>952,943</u>
Net change in fund balance	(1,916,204)	(1,916,204)	267,811	2,184,015
Fund balance, July 1, 2014	<u>1,916,204</u>	<u>1,916,204</u>	<u>1,936,499</u>	<u>20,295</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,204,310</u>	<u>\$ 2,204,310</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget to Actual – Special Revenue Fund  
Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>Revenues</b>				
State sources	\$ 524,560	\$ 533,826	\$ 488,276	\$ (45,550)
Federal sources	879,636	879,636	879,082	(554)
Other sources	-	-	66,852	66,852
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	1,404,196	1,413,462	1,434,210	20,748
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Expenditures</b>				
Instructional	1,131,275	1,131,275	1,123,829	7,446
Student support services	2,552	2,552	4,127	(1,575)
Staff support services	40,466	40,466	36,101	4,365
School administration	1,923	1,923	1,849	74
Business support services	-	-	32,068	(32,068)
Student transportation	82,245	82,245	80,459	1,786
Community service operations	155,735	155,001	155,777	(776)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	1,414,196	1,413,462	1,434,210	(20,748)
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	(10,000)	-	-	-
Fund balance, July 1, 2014	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2015	<u>(10,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget to Actual – Debt Service Fund  
Year Ended June 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
State sources	\$ 870,259	\$ 870,259	\$ 870,265	\$ 6
Other sources	<u>1,669,642</u>	<u>1,669,642</u>	<u>1,268,298</u>	<u>(401,344)</u>
Total revenues	<u>2,539,901</u>	<u>2,539,901</u>	<u>2,138,563</u>	<u>(401,338)</u>
<b>Expenditures</b>				
Debt services	<u>2,539,901</u>	<u>2,539,901</u>	<u>2,138,563</u>	<u>401,338</u>
Total expenditures	<u>2,539,901</u>	<u>2,539,901</u>	<u>2,138,563</u>	<u>401,338</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Receipts, Disbursements and Fund Balance  
Bond and Interest Redemption Funds  
For the Year Ended June 30, 2015**

	Issue of 2003	Issue of 2005 Kista	Issue of 2006	Issue of 2006 A Kista	Issue of 2006 B Kista	Issue of 2008 - Ref	Issue of 2008	Issue of 2008 Kista	Issue of 2009 Kista	Issue of 2010 - Ref
<b>Cash at July 1, 2014</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Receipts:</b>										
Transfers and miscellaneous deposits	316,819	6,755	267,980	14,636	9,622	143,401	83,969	19,793	10,195	227,845
<b>Disbursements:</b>										
Bonds paid	300,000	6,519	-	13,557	8,709	100,000	55,000	17,357	8,695	175,000
Interest coupons	16,819	236	267,980	1,079	913	43,401	28,969	2,436	1,500	52,845
Transfers and miscellaneous	-	-	-	-	-	-	-	-	-	-
Call fee	-	-	-	-	-	-	-	-	-	-
Total disbursements	316,819	6,755	267,980	14,636	9,622	143,401	83,969	19,793	10,195	227,845
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-	-
<b>Cash at June 30, 2015</b>	-	-	-	-	-	-	-	-	-	-
<b>Accounts Receivable and Payable</b>										
Matured interest and bonds outstanding	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-
Total accounts receivable and payable	-	-	-	-	-	-	-	-	-	-
<b>Fund Balance at June 30, 2015</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	Issue of 2010 Kista	Issue of 2011 Kista	Issue of 2012	Issue of 2012 Kista	Issue of 2013	Issue of 2013 Kista	Issue of 2014 Kista	Issue of 2014	Issue of 2015	Total
<b>Cash at July 1, 2014</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Receipts:</b>										
Transfers and miscellaneous deposits	12,525	12,573	152,562	12,256	37,935	13,793	15,338	403,326	504,689	2,266,012
<b>Disbursements:</b>										
Bonds paid	10,747	10,301	65,000	10,401	30,000	11,892	12,721	240,000	480,000	1,555,899
Interest coupons	1,778	2,272	87,562	1,855	7,935	1,901	2,617	163,326	24,689	710,113
Transfers and miscellaneous	-	-	-	-	-	-	-	-	-	-
Call fee	-	-	-	-	-	-	-	-	-	-
Total disbursements	12,525	12,573	152,562	12,256	37,935	13,793	15,338	403,326	504,689	2,266,012
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-	-
<b>Cash at June 30, 2015</b>	-	-	-	-	-	-	-	-	-	-
<b>Accounts Receivable and Payable</b>										
Matured interest and bonds outstanding	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-
Total accounts receivable and payable	-	-	-	-	-	-	-	-	-	-
<b>Fund Balance at June 30, 2015</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Receipts, Disbursements and Fund Balance  
Gallatin County High School Activity Fund  
For the Year Ended June 30, 2015**

	<b>Fund Balance July 1, 2014</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Fund Balance June 30, 2015</b>
Interest account	\$ 13	\$ 3,381	\$ 2,636	\$ 758
Academic team	-	325	325	-
Art club	146	440	-	586
Athletic speedway	2,956	16,803	18,080	1,678
Athletics	2,200	43,094	38,181	7,114
Basketball camp	2,086	420	920	1,586
Beta club	73	1,061	889	245
Bogardus scholarships	-	861	861	-
Boys baseball	785	4,475	3,868	1,392
Boys basketball	1,359	8,427	7,318	2,468
Boys basketball fundraiser	311	3,831	599	3,543
Boys cross country	1	700	591	110
Boys golf	606	1,454	2,055	5
Boys soccer	-	9,218	8,761	457
Boys tennis	11	720	113	618
Cheerleaders	1,349	12,365	9,305	4,409
Coaches	25	-	25	-
Crume family scholarship	1,122	2,296	2,296	1,122
Drama club	665	3,869	3,751	783
FBLA	1,258	5,810	6,864	204
FCA	221	427	482	166
FCCLA	-	554	204	350
FFA	8,949	21,547	20,337	10,160
FFA northern region	2,877	270	3,147	-
Fishing	(292)	1,092	410	390
Football	5,657	11,559	16,571	645
Freshman mentors	-	2,023	1,225	798
Future educators	374	396	444	326
Girls basketball	1,122	12,035	10,631	2,525
Girls basketball fundraiser	1,435	772	-	2,207
Girls golf	7	143	-	150
Girls soccer	23	230	230	23
Girls softball	3,866	2,135	3,576	2,425
Girls tennis	-	715	713	2
Girls tennis fundraiser	461	525	846	140
Girls volleyball	171	3,494	3,156	509
High school football fundraise	1,978	14,148	14,048	2,078
High school spirit club	221	90	-	311
High school trip	-	14,265	2,800	11,465
HS volleyball fundraiser	3,300	70	1,932	1,438
Juniors	477	11,702	12,042	137
Ms. Sherman's class	183	-	-	183
SADD club	1,415	-	-	1,415

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Receipts, Disbursements and Fund Balance  
Gallatin County High School Activity Fund (Continued)  
For the Year Ended June 30, 2015**

	<b>Fund Balance July 1, 2014</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Fund Balance June 30, 2015</b>
Seniors	\$ 611	\$ 3,310	\$ 3,047	\$ 875
Sophomores	-	2,560	2,522	38
Spanish club	283	-	276	7
Tournaments	134	15,117	14,653	598
Track	-	210	203	7
Vo Ag	2,956	4,073	3,110	3,919
Y club	210	-	-	210
Yearbook	1,812	1,805	-	3,617
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 53,417	\$ 244,815	\$ 224,038	\$ 74,193
	<hr/>	<hr/>	<hr/>	<hr/>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Statement of Receipts, Disbursements and Fund Balance  
School Activity Funds  
For the Year Ended June 30, 2015**

	<u>Gallatin Middle School</u>	<u>Gallatin Lower Elementary School</u>	<u>Gallatin Upper Elementary School</u>	<u>Total</u>
Fund balances at July 1, 2014	\$ 6,969	\$ 1,247	\$ 21	\$ 8,237
Add: receipts	34,840	25	-	34,865
Less: disbursements	<u>(31,632)</u>	<u>(1,272)</u>	<u>(21)</u>	<u>(32,925)</u>
Fund balance at June 30, 2015	<u>\$ 10,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,177</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Schedule of the District's Proportionate Share of the Net Pension Liability - KTRS**

	Last 10 Fiscal Years*									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District's proportion of the net pension liability	0%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ -	*	*	*	*	*	*	*	*	*
State's proportionate share of the net pension liability associated with the District	44,782,229	*	*	*	*	*	*	*	*	*
<b>Total</b>	<b>44,782,229</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>	<b>*</b>
District's covered-employee payroll	6,843,201	6,614,396	6,555,287	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	45.59%	*	*	*	*	*	*	*	*	*

\* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

*Changes of benefit terms:* None

*Changes of assumption:* In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Table rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Schedule of District Contributions - KTRS**

Last 10 Fiscal Years\*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 217,421	\$ 160,290	\$ 129,239	\$ 112,697	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(217,421)</u>	<u>(160,290)</u>	<u>(129,239)</u>	<u>(112,697)</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 6,919,897	\$ 6,843,201	\$ 6,614,396	\$ 6,555,287	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	3.14%	2.34%	1.95%	1.72%	*	*	*	*	*	*

\* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Schedule of the District's Proportionate Share of the Net Pension Liability - CERS**

	Last 10 Fiscal Years*									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
District's proportion of net pension liability	0.093618%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 3,037,000	*	*	*	*	*	*	*	*	*
Total net pension liability	\$ 3,244,377,000	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 2,147,844	\$ 2,121,742	\$ 2,251,084	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.4%	*	*	*	*	*	*	*	*	*

\* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

*Changes of benefit terms:* The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tired structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

*Changes of assumption:* The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2006: The assumptions were updated as the result of an experience study for the five year period ending June 30, 2005.

2007: Amortization bases have been combined and will be amortized over a single 30 year closed period beginning June 30, 2007.

2009: The assumptions were updated as the result of an experience study for the three year period ending June 30, 2008.

2013: The amortization period of the unfunded accrued liability was reset to a closed 30 years period.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Schedule of District Contributions - CERS**

	Last 10 Fiscal Years*									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 375,210	\$ 405,728	\$ 413,978	\$ 426,806	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(375,210)</u>	<u>(405,728)</u>	<u>(413,978)</u>	<u>(426,806)</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 2,123,425	\$ 2,147,844	\$ 2,121,742	\$ 2,251,084	*	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	17.67%	18.89%	19.51%	18.96%	*	*	*	*	*	*

\* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. No changes were made to the assumptions or benefit terms.

**GALLATIN COUNTY SCHOOL DISTRICT**

**Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Agreement Number</u>	<u>Federal Expenditures for FYE June 30, 2015</u>
<b><u>U.S. Department of Education</u></b>			
<i>Passed through Kentucky Department of Education</i>			
Special Education Cluster			
Special Education Grants to States	84.027	3810002 13	\$ 72
Special Education Grants to States	84.027	3810002 14	8,495
Special Education Grants to States	84.027	3810002 15	269,463
Special Education Preschool Grants	84.173	3800002 14	515
Special Education Preschool Grants	84.173	3800002 15	11,645
Total Special Education Cluster			<u>290,190</u>
Title I Grants to Local Educational Agencies	84.010	3100002 14	29,503
Title I Grants to Local Educational Agencies	84.010	3100002 15	401,495
Total CFDA #84.010			<u>430,998</u>
Career and technical Education -Basic Grants to States	84.048	3710002 14	692
Career and technical Education -Basic Grants to States	84.048	3710002 15	13,257
Total CFDA #84.048			<u>13,949</u>
Rural Education	84.358B	3140002 14	690
Rural Education	84.358B	3140002 15	30,435
Total CFDA #84.358B			<u>31,125</u>
English Language Acquisition State Grants	84.365	3300002 12	5,876
English Language Acquisition State Grants	84.365	3300002 13	15,277
English Language Acquisition State Grants	84.365	3300002 14	10,238
Total CFDA #84.365			<u>31,391</u>
Title II Improving Teacher Quality State Grants	84.367	3230002 14	8,426
Title II Improving Teacher Quality State Grants	84.367	3230002 15	66,751
Total CFDA #84.367			<u>75,177</u>
Race to the Top	84.413A	3960002 11	6,252
Total U.S. Department of Education			<u>879,082</u>
<b><u>U.S. Department of Agriculture</u></b>			
Child Nutrition Cluster			
<i>Passed through Kentucky Department of Education</i>			
National School Lunch Program	10.555	7750002 14	115,357
National School Lunch Program	10.555	7750002 15	408,922
School Breakfast Program	10.553	7760005 14	39,327
School Breakfast Program	10.553	7760005 15	145,926
<i>Passed through Kentucky Department of Agriculture</i>			
National School Lunch Program - Food Donation	10.555	N/A	59,231
Total Child Nutrition Cluster			<u>768,763</u>
Total U.S. Department of Agriculture			<u>768,763</u>
Total Expenditures of Federal Awards			<u>\$ 1,647,845</u>

**GALLATIN COUNTY SCHOOL DISTRICT**

**Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Gallatin County School District under programs of the federal government for the year ended June 30, 2015, and is reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Gallatin County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**NOTE 2 FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2015, the District reported food commodities expended in the amount of \$59,231



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of the Board of Education  
Gallatin County School District  
Warsaw, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gallatin County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Gallatin County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Gallatin County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gallatin County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gallatin County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to management of the District in a separate letter dated November 13, 2015.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Barnes, Dennig & Co., Ltd.*

Crestview Hills, Kentucky  
November 13, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Members of the Board of Education  
Gallatin County School District  
Warsaw, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Gallatin County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Gallatin County School District's major federal programs for the year ended June 30, 2015. Gallatin County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Gallatin County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gallatin County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Gallatin County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Gallatin County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

(Continued)

**Report on Internal Control Over Compliance**

Management of Gallatin County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Gallatin County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gallatin County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Barnes, Dennig & Co., Ltd.*

GALLATIN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

SECTION I -SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None noted
Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of major programs

Table with 2 columns: CFDA No. and Name of Federal Program or Cluster. Row 1: 10.553/10.555 84.010, Child Nutrition Cluster Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

**GALLATIN COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2015**

**SECTION I -SUMMARY OF PRIOR YEAR AUDITOR'S RESULTS**

No matters are reportable

**SECTION II – PRIOR YEAR FINANCIAL STATEMENT FINDINGS**

No matters are reportable

**SECTION III – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COST**

No matters are reportable

**GALLATIN COUNTY SCHOOL DISTRICT**

**Management Letter Comments  
For the Year Ended June 30, 2015**

In planning and performing our audit of the financial statements of Gallatin County School District for the year ended June 30, 2015, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter summarizes our comments and suggestions regarding those matters. A separate report dated November 13, 2015 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 13, 2015, on the financial statements of the Gallatin County School District.

**CURRENT YEAR RECOMMENDATIONS**

**CENTRAL OFFICE**

**2015-01 – KTRS Form 30 Retiree Employment Report was not timely filed**

Criteria – Per the instructions of the KTRS Form 30, the report must be completed and submitted by August, 15, 2015 even if no retirees were employed.

Condition – During the testing of payroll, it was noted that the retiree report was not filed until August 18, 2015.

Effect – Proper procedures regarding annual payroll report submissions were not followed.

Cause – Best practices were not properly followed as designed by the District.

Recommendation – We recommend that District creates an annual check list for reports needed to be file on an annual basis.

Board Response – The District will incorporate the practice of submitting payroll reports on a timely basis.

**ACTIVITY FUNDS**

**Gallatin County High School**

No matters are reportable

**Gallatin County Middle School**

No matters are reportable

**Gallatin County Lower Elementary**

No matters are reportable

**Gallatin County Upper Elementary**

No matters are reportable

**GALLATIN COUNTY SCHOOL DISTRICT**

**Management Letter Comments  
(Continued)  
For the Year Ended June 30, 2015**

**STATUS OF PRIOR YEAR RECOMMENDATIONS**

**CENTRAL OFFICE**

Statement of prior year deficiency:

- During the testing of the Activity Funds, it was noted that all the invoices tested were not sufficiently marked as paid or properly defaced.

Current year follow-up: There were no such instances noted in the current year.

**ACTIVITY FUNDS**

**Gallatin County High School**

No matters are reportable

**Gallatin County Middle School**

No matters are reportable

**Gallatin County Lower Elementary**

No matters are reportable

**Gallatin County Upper Elementary**

No matters are reportable